

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING**Fiscal Note 2015 Biennium**

Bill #	SB0175
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Title:	Generally revise public education funding
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Primary Sponsor:	Jones, Llew
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Status:	As Amended in Senate Education Committee on 01/30/13
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- ☒ Significant Local Gov Impact
 ☒ Needs to be included in HB 2
 ☒ Technical Concerns
☐ Included in the Executive Budget
 ☒ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$59,195,590	\$66,230,687	\$67,839,909	\$60,601,932
State Special Revenue-Guarantee Acct-SA	(\$9,594,684)	(\$8,802,843)	(\$8,087,517)	\$0
State Special Revenue-State O&G Impact	\$0	\$0	\$0	\$0
State Special Revenue-County O&G Impact	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue-Guarantee Acct-SA	(\$9,594,684)	(\$8,802,843)	(\$8,087,517)	\$0
State Special Revenue-State O&G Impact	(\$685,335)	(\$628,775)	(\$577,680)	\$0
State Special Revenue-County O&G Impact	(\$3,426,673)	(\$3,143,873)	(\$2,888,399)	\$0
Net Impact-General Fund Balance:	<u>(\$59,195,590)</u>	<u>(\$66,230,687)</u>	<u>(\$67,839,909)</u>	<u>(\$60,601,932)</u>

Description of fiscal impact: SB 175, as amended, revises K-12 funding and the funding formula. The cost to the state general fund is \$125.4 million for the 2015 biennium and \$128.4 million for the 2017 biennium.

FISCAL ANALYSIS**Assumptions:****Office of Public Instruction (OPI)**

- The average number belonging (ANB) used to determine the general fund budgets for K-12 public school districts follows. FY 2013 is the actual current year ANB and FY 2014 and beyond are estimated current year ANB used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
K-6 ANB	80,043	80,779	81,254	81,603	82,609
7-8 ANB	22,146	22,228	22,593	22,671	22,985
9-12 ANB	<u>43,626</u>	<u>43,683</u>	<u>43,323</u>	<u>43,502</u>	<u>43,855</u>
	145,815	146,690	147,170	147,776	149,449

2. The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Public Schools	11,995.424	11,995.424	11,995.424	11,995.424	11,995.424
Special Ed Coops	<u>181.637</u>	<u>181.637</u>	<u>181.637</u>	<u>181.637</u>	<u>181.637</u>
FTE Count	12,177.061	12,177.061	12,177.061	12,177.061	12,177.061

3. The present law inflation applied to the basic and per-ANB entitlements (20-9-326, MCA) is 0.89% in FY 2014 and 2.08% in FY 2015. For the present law budget, the basic and per-ANB entitlements are set as follows:

<u>Entitlement</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Elementary Basic	\$23,593	\$23,803	\$24,298	\$24,850	\$25,265
Middle School Basic	\$66,816	\$67,411	\$68,813	\$70,375	\$71,550
High School Basic	\$262,224	\$264,558	\$270,061	\$276,191	\$280,803
Elementary Per-ANB	\$5,075	\$5,120	\$5,226	\$5,345	\$5,434
High School Per-ANB	\$6,497	\$6,555	\$6,691	\$6,843	\$6,957
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

4. Present law (20-9-326, MCA) requires the Governor to include inflation adjustments for the basic and per-ANB entitlements in the recommendations presented to the legislature. These present law adjustments, included in the Governor's budget, result in the following expenditures:

	<u>FY 2014</u>	<u>FY 2015</u>
Direct State Aid	\$400.0 million	\$408.3 million
Guaranteed Tax Base Aid	\$145.8 million	\$149.1 million
County Retirement GTB	\$ 32.7 million	\$ 33.7 million

5. Direct State Aid, GTB, and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division, and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
6. The present law adjustments do not include inflationary increases for the general fund payments in 20-9-327 through 20-9-330, MCA, (Indian Education for All payment, American Indian Achievement Gap payment, Quality Educator payment, At-Risk Student payment). These payments total \$48.8 million in each year of the 2015 biennium, distributed at the rates in the following table.

<u>Component</u>	<u>Present law distribution amount</u>
Indian Education for All	\$20.40 per ANB or \$100 per district, whichever is greater
American Indian Achievement Gap	\$200 per American Indian student
Quality Educator	\$3,042 per FTE
At Risk Student	\$5,000,000

7. The state special education allowable cost payment remains at the FY 2012 base level of \$41.6 million per year.
8. The statewide taxable valuations are forecast to increase by 3.17% in FY 2014 and 1.74% in FY 2015.

K-12 data task force (Section 1)

9. SB 175 creates a 27-member K-12 data task force to advise the OPI. The task force reviews, monitors, and provides input and guidance in enhancing the statewide K-12 data system. OPI estimates that the task force would meet four times each fiscal year. The estimated cost for travel (lodging, mileage and per diem) is

\$10,522 plus \$50 per day for the 15 members who are not public employees for a total state general fund cost of \$13,522.

10. The OPI would need 1.00 FTE to convene and facilitate the work of the task force and focus on the system improvements for data exchanges between OPI and school districts. A computer systems analyst costs \$69,718 annually for salary and benefits in FY 2014 and FY 2015. The operating budget for this position would be \$8,000 annually.
11. Section 1, as amended, is set to terminate June 30, 2020.

Data-For-Achievement payment (Section 2)

12. SB 175 creates a new funding component, the Data-For-Achievement payment, to be distributed to school districts in the amount of \$20 per budgeted ANB beginning in FY 2014. The following table shows the state general fund cost per year for the Data-For-Achievement payment.

	FY 2014	FY 2015	FY 2016	FY 2017
Data-for-Achievement Payment	\$2,947,580	\$2,948,660	\$2,956,260	\$2,988,980

Definitions (Section 5, as amended)

13. Section 5, as amended, adds a natural resource development (NRD) K-12 funding payment and the total Data-For-Achievement payment, described in assumption 12, to the definition of BASE aid.
14. The NRD payment is for a variable percentage of the basic and per-ANB entitlements above the DSA for school districts' general fund budget, which must be an amount equivalent to 50% of the oil and natural gas production taxes deposited into the general fund pursuant to 15-36-331(4), MCA, for the fiscal year occurring two fiscal years prior to the school fiscal year in which the payment is provided plus any excess interest and income revenue appropriated by legislature pursuant to 20-9-622(3)(a), MCA.
15. The school districts' "BASE budget" and "maximum general fund budget" are modified to include 100% of the Data-For-Achievement payment. This would increase the BASE and maximum general fund school district budget limits. However, because the Data-For-Achievement payment is 100% funded by the state, there would be no local property tax increase due to this payment.

Basic and per-ANB entitlements (Section 5, as amended)

16. Current law allows one elementary basic entitlement payment, one middle school basic entitlement payment, and/or one high school basic entitlement payment per district for each qualified elementary, middle, and/or high school within the district.
17. Current law results in payment of 306 elementary basic entitlements, 208 middle school basic entitlements, and 160 high school basic entitlements used in the calculation of school districts' general fund budgets.
18. SB 175 would allow basic entitlement payments based on number of ANB in the district as indicated in the following table.

	# of ANB to qualify for one basic entitlement	# of ANB to qualify for additional basic entitlement
Elementary	Up to 250 ANB	For each additional 25 ANB
Middle	Up to 450 ANB	For each additional 45 ANB
High School	Up to 800 ANB	For each additional 80 ANB

19. There are 67 elementary school districts with more than 250 elementary ANB and seven middle school districts with more than 450 ANB that would receive additional basic entitlement payment due to SB 175.
20. There are seven high school districts with more than 800 students that would receive additional basic entitlement payment due to SB 175.

21. SB 175 also increases basic entitlement amounts shown in the following table:

<u>Entitlement</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Elementary Basic	\$23,593	\$40,000	\$50,000	\$51,135	\$51,989
Middle School Basic	\$66,816	\$80,000	\$100,000	\$102,270	\$103,978
High School Basic	\$262,224	\$290,000	\$300,000	\$306,810	\$311,934
Additional 25 elementary ANB	\$0	\$2,000	\$2,500	\$2,557	\$2,600
Additional 45 middle school ANB	\$0	\$4,000	\$5,000	\$5,114	\$5,199
Additional 80 high school ANB	\$0	\$12,000	\$15,000	\$15,341	\$15,597

22. The restructuring of the basic entitlements in SB 175 would increase DSA and GTB by the amounts shown in the following table.

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Direct State Aid	\$8,126,267	12,251,816	\$12,586,267	\$12,859,293
Guaranteed Tax Base Aid	\$2,975,710	\$4,259,626	\$4,233,600	\$4,268,814
County Retirement GTB	<u>\$373,111</u>	<u>\$524,632</u>	<u>\$541,199</u>	<u>\$557,365</u>
Total	\$11,475,089	\$17,036,075	\$17,361,066	\$17,685,472

23. Section 12 of SB 175, as amended, would include inflation-related adjustments be added to the Data-For-Achievement payment, the Quality Educator payment, the At-Risk Student payment, the Indian Education for All payment, and the American Indian Achievement Gap payment. The inflation calculation per statute shows inflation in FY 2014 will be 0.89% and 2.08% for FY 2015. The estimated inflation rate used for this fiscal note for FY 2016 is 2.27% and 1.67% in FY 2017. The payments would be 100% state funded, so would have no local impact, but the additional cost to the state is reflected in the following table:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Indian Education for All	\$26,525	\$89,913	\$161,078	\$216,650
American Indian Achievement Gap	\$37,694	\$112,638	\$205,700	\$279,420
Quality Educator Pmt	\$328,781	\$1,108,113	\$1,972,684	\$2,630,245
At Risk Pmt	\$44,500	\$149,426	\$266,318	\$354,266
Data-For-Achievement Pmt	<u>\$0</u>	<u>\$61,922</u>	<u>\$130,075</u>	<u>\$183,822</u>
Total Inflation Increases	\$437,500	\$1,522,012	\$2,735,855	\$3,664,403

Base budgets and maximum general fund budgets (Section 6, as amended)

24. Section 6 of SB 175, as amended, allows school districts to add any increase in state funding for the basic and per-ANB entitlements, the Data-For-Achievement payment, the Quality Educator payment, the At-Risk Student payment, the Indian Education for All payment, and the American Indian Achievement Gap payment to the previous year's general fund budget for purposes of determining base and maximum general fund budget limitations.

25. Current law does not include the basic and per-ANB entitlements or the Data-For-Achievement payment when determining the base and maximum school district general fund budget limitations.

26. Current law does not include the inflation of the basic and per-ANB entitlements to be applied to the previous year's school district general fund budget in order to calculate the previous year's general fund budget for determining base and maximum general fund budget limitations. The state pays 44.7% of the basic and per-ANB entitlements as direct state aid (DSA) to school districts.

27. Section 11 of SB 175, as amended, requires inflation be applied to the following school district funding components paid by the state: Data-For-Achievement payment, Quality Educator payment, At-Risk Student payment, Indian Education for All payment, and American Indian Achievement Gap payment. The state pays 100% of each of these entitlements to school districts.
 28. Each year in the budgeting process, SB 175 would allow school districts to add the amount of each component's inflation increase to the previous year's general fund budget to determine if the district would adopt a general fund budget up to the maximum general fund budget limit or the previous year's general fund budget with the current year inflation increases for all the components and 44.7% of the inflation increases of the basic and per-ANB added to the previous year's general fund budget, whichever is greater. There could be a local property tax increase associated with the increased budget limits.
 29. The additional budget limit could also mean an increase in GTB paid to school districts. For purposes of this fiscal note, it is not known how many districts would choose to increase their budgets under these conditions and the state impact is unknown.
 30. Subsection 2 of Section 6, as amended strikes the words "any of" which would then allow school districts to adopt a general fund budget that exceeds the BASE budget and to increase the over-BASE budget levy over revenue previously authorized by the electors of the district or imposed by the district in the previous five years to support the general fund budget. This would mean that any voted levy in the previous five years could be included, permissively, as part of the budget levy.
 31. In subsection 2(b) of Section 6, as amended, it states that the intent in assumption 22 is to increase flexibility and efficiency of school boards without increasing school district property taxes. Property taxes would not be increased, however, this section gives school district trustees the ability to permissively levy taxes that were not previously allowed without a vote. The taxes were levied for other purposes.
 32. Section 6 of SB 175 also allows trustees to reduce nonvoted property taxes, also known as permissive levies and add them to the over-BASE budget levy without a vote. This allows school districts to move permissive levy authority from other budgeted funds to the district general fund without voter approval.
- Natural Resource Development K-12 funding payment (Sections 5, 12, 29, as amended)***
33. SB 175, Section 5(10), as amended, creates a NRD K-12 funding payment as a variable percentage of the basic and per-ANB entitlements above direct state aid for school district general fund budgets of a district as a funding source for K-12 BASE aid.
 34. The revenue sources for the NRD payment include: 50% of the oil and natural gas production taxes currently allocated to the state general fund for the two years prior; excess funds paid to the state when a county cannot distribute funds to school districts within the county because of the 300% of the maximum general fund budget in 20-9-323, MCA, (beginning July 1, 2020); any amount in excess of \$7.5 million in the State School Oil and Natural Gas Impact Account; and excess interest and income revenue in excess of \$56 million annually and more than \$1.0 million total.
 35. The NRD payment would be distributed in FY 2014 in an amount equal to 50% of the oil and natural gas production taxes deposited in the state general fund in FY 2012. The FY 2012 revenue from oil and natural gas production taxes to the state general fund was \$97.56 million, so 50% of that amount is \$48.78 million.
 36. The following table shows the anticipated oil and natural gas production taxes revenue for FY 2012 through FY 2017 and the amount of those revenues directed by SB 175 for the NRD payment.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Anticipated Oil and Natural Gas Production Taxes	\$97.560	\$99.354	\$99.602	\$96.031	\$95.674	\$101.825
General Fund			(\$48.780)	(\$49.677)	(\$49.801)	(\$48.015)

37. The distribution of the NRD payment would represent additional non levy revenue in the districts offsetting the amount of GTB paid by the state. The GTB payments would be reduced by \$19.6 million in FY 2014, \$18.6 million in 2015, \$19.0 million in FY 2016, and \$19.4 million in FY 2017.

38. Section 10, 20-9-323, MCA, does not take effect until July 1, 2020, according to changes in SB 175. This effective date would mean there would be no excess funds paid to the state when a county cannot distribute funds to school districts within the county because of the 300% of the maximum general fund budget limit. Therefore, there would be no revenue distributed to the Guarantee Account from this source in this fiscal note.
39. The State School Oil and Natural Gas Impact Account is not expected to receive revenues within the next four fiscal years in an amount that would exceed \$7.5 million. SB 175 directs revenues in that account in excess of \$7.5 million to be distributed to the Guarantee Account for the NRD K-12 funding payment. There would be no revenue to the Guarantee Account for the NRD K-12 funding payment in this fiscal note.
40. Under SB 175, “excess interest and income revenue” is defined as an annual amount in excess of \$56 million. The excess revenue must be equal to or exceed \$1 million distributed as part of the NRD K-12 funding payment two years after the excess occurs. If the excess interest and income is \$1 million or less, the excess is added to the calculation of the excess revenue in the following year.
41. The anticipated interest and income revenue for FY 2014 is \$53,620 and for FY 2015 is \$49,460. It is anticipated that no excess interest and income revenue would be allocated to the NRD K-12 funding payment in this fiscal note.

Budgeting oil and natural gas production taxes revenue in district general fund (Section 6, as amended)

42. The oil and natural gas production taxes are projected to fluctuate over the next two biennia. The following table shows the growth factors for FY 2014 through FY 2017.

	Anticipated Oil & Natural Gas Growth
FY 2014	101.21%
FY 2015	96.88%
FY 2016	99.66%
FY 2017	106.65%

43. Under current law, school districts must anticipate general fund revenue of at least 45% of the previous year's oil and natural gas production taxes in FY 2014 and 55% in FY 2015. SB 175 decreases the required percentage to 25% for FY 2014 and beyond. FY 2012 data is the most recent actual school district revenue from oil and natural gas production taxes available. FY 2013 budget data is the most recent available. The following table shows the actual and estimated revenue and actual and estimated budget data available for oil and natural gas production taxes receive by school districts. Actual data is shown in bold.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual-All funds	\$31,275,656	\$31,813,597	\$32,198,542	\$31,193,947	\$31,087,888	\$33,155,232
Budgeted Actual	\$10,232,252	\$11,973,983				
Budgeted Current Law	\$10,054,482	\$10,946,480	\$14,316,119	\$17,709,198	\$17,156,671	\$17,098,338
Budgeted 25% -SB 175	\$10,054,482	N/A	<u>\$8,049,635</u>	<u>\$7,798,487</u>	<u>\$7,771,972</u>	<u>\$8,288,808</u>
Difference CL & SB 175			\$6,266,483	\$9,910,711	\$9,384,699	\$8,809,530

44. In FY 2013, 122 school districts are expected to receive oil and natural gas production taxes revenue. Seventy-five of these school districts also receive GTB.
45. The GTB calculation for school districts is determined, in part, on the amount of non levy revenue estimated to be received in the budget year. Oil and natural gas production taxes are one piece of the non levy revenue school districts receive. When districts underestimate non levy revenues, it is possible, if the district receives GTB payments, that they would receive more GTB than if they had estimated non levy revenues correctly.

46. Current law directs school districts to deposit oil and natural gas production taxes revenue in the school district general fund in an amount at least equal to the amount budgeted. The decreased amount of budgeted oil and natural gas production taxes revenue because of SB 175 could mean a reduction in the amount of non levy revenue reported in the following fiscal year resulting in a possible increase in state GTB payments to school districts.
47. Data related to schools and budgeting oil and natural gas production taxes revenue is shown in the following table.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
# of school districts that budgeted oil and natural gas production taxes revenue in district general fund	55	52	51	58	120	122
# of school districts that did not budget oil and natural gas production taxes in district general fund but receive oil and natural gas production taxes revenue	72	81	79	64	3	N/A
# of schools that received oil and natural gas production taxes revenue	127	133	130	122	123	N/A
# of schools that estimated 25% or more oil and natural gas production taxes revenue	42	37	42	46	108	N/A

48. From FY 2008 to FY 2011, six school districts made a practice of budgeting enough oil and natural gas production taxes revenue in the district general fund budget to keep their mill levy at zero mills. This fiscal note assumes that these districts would continue to keep their general fund mills at zero mills.
49. Section 7 of SB 175, as amended, exempts certain school districts from having to budget at least 25% of the prior year oil and natural gas production taxes revenue in the district general fund. There are 410 operating school districts in Montana in FY 2013. The following table shows the number of districts qualifying for each of the exemptions.

Description	# of school districts
Maximum general fund budget less than \$1 million	209
GF Budget + O&G revenue \leq 105% of Maximum GF Budget	285
Maximum GF budget \geq \$1 million and anticipated enrollment increase approved in prior year by OPI	2
Outstanding oil and natural gas revenue bonds (new in SB 175)	0
Districts receiving oil and natural gas production taxes revenue and not qualifying for exemptions in Section 8(7)	35

50. Of 123 school districts receiving oil and natural gas production taxes revenues, under SB 175, only 35 districts would be subject to the existing restrictions related to estimation of oil and natural gas production taxes.
51. It is assumed that another 27 districts that have made a practice of budgeting at least 25% of their prior year oil and natural gas production taxes receipts in the district general fund, would continue to do so, despite the fact that they are not subject to that requirement under the provisions of SB 175.

52. All other districts that receive oil and natural gas production taxes revenue are assumed to estimate no oil and natural gas production taxes revenue in their general fund budget. The following table shows the GTB impact.

	FY 2014	FY 2015	FY 2016	FY 2017
Guaranteed Tax Base Aid	\$807,665	\$825,398	\$837,669	\$885,760

53. Section 7(8), as amended: Of the ten school districts that have distributions withheld as a result of the 130% of maximum general fund budget cap on oil and natural gas production taxes revenues, nine school districts experienced an enrollment increase of at least 4% or 25 students at least one year between FY 2010 and FY 2013. Four of the school districts had enrollment increased of at least 4% or 25 students for two of the three years. Only one district had an enrollment increase of at least 25 students, but also qualified for the enrollment increase because that was at least 4% increase. It is assumed that enrollment increases of approximately 45 ANB would continue in these nine schools.
54. According to SB 175, school districts that qualify for and are approved by the Superintendent of Public Instruction for an anticipated enrollment increase of at least 4% or 25 students would also retain an additional \$45,000 per additional ANB approved by the superintendent. These districts would receive an additional \$2 million in oil and natural gas production taxes revenue as a result each year.
55. The additional distribution to school districts would reduce the revenue to the state special revenue Guarantee Account (70% or \$1.4 million), the State School Oil and Natural Gas Impact Account (5% or \$0.1 million), and the County School Oil and Natural Gas Impact Fund (25% or \$0.5 million). None of the nine districts receives GTB, so there is no GTB impact of the additional non levy revenue.
56. Section 7, as amended, would terminate on June 30, 2020. Under current law the termination date was June 30, 2016. Therefore, there is no fiscal impact in FY 2017 to the Guarantee Account, the State School Oil and Natural Gas Impact Account, or the County School Oil and Natural Gas Impact Fund.

Additional official enrollment count date and calculation of ANB (Section 8, as amended)

57. Under current law, there are two official enrollment count dates (first Monday in October and February 1).
58. SB 175 adds a third official enrollment count on the first Monday in December. The first Monday in December 2013 would be the first time the OPI could gather data for the third count date. That data would be used to determine the ANB for FY 2015.
59. For purposes of this fiscal note, the fall count was doubled and an average was calculated using twice the October enrollment count plus the February enrollment count to determine an adjusted ANB for FY 2015. Based on this method, it was determined that an overall increase to ANB would be applied. However, some schools would see an increase in ANB and others would see a decrease.
60. The cost to the state general fund for the school funding formula using three official enrollment count dates is represented in the following table:

	FY 2014	FY 2015	FY 2016	FY 2017
Direct State Aid	\$0	\$322,006	\$324,426	\$326,949
Guaranteed Tax Base Aid	\$0	\$125,549	\$131,619	\$139,408
Indian Education for All	<u>\$0</u>	<u>\$2,218</u>	<u>\$2,177</u>	<u>\$2,156</u>
Total	\$0	\$449,772	\$458,222	\$468,514

61. Section 8(4)(d), as amended, is covered in current law under 20-9-311 (4)(c), MCA.

Unusual Enrollment Increases

62. FY 2012 and FY 2013 fall enrollments were compared to determine if a 4% increase or growth of 25 students occurred. If the criteria were met, FY 2013 ANB was recalculated to determine an adjusted ANB amount. This method yields an additional 2,376 current year ANB in FY 2014.

63. The increase to school funding for unusual enrollment increases of 4% or 25 students is shown in the following table:

	FY 2014	FY 2015	FY 2016	FY 2017
Direct State Aid	\$5,388,727	\$5,642,973	\$6,041,545	\$6,216,217
Guaranteed Tax Base Aid	\$2,145,445	\$2,454,450	\$2,561,018	\$2,630,765
Indian Education for All	\$46,202	\$47,202	\$49,078	\$49,670
Data-for-Achievement Pmt	<u>\$46,980</u>	<u>\$48,220</u>	<u>\$50,020</u>	<u>\$50,600</u>
Total	\$7,627,354	\$8,192,845	\$8,701,661	\$8,947,252

Implementation of Montana common core standards and accreditation standards

64. The increased funding for the school district general fund budgets allowed in SB 175, beyond inflation, would provide schools with resources to implement the Common Core standards, prepare for online assessments, and implement the recent changes to the state accreditation standards.

Implementation costs

65. The OPI would need 1.00 FTE student records manager to assist schools with the new enrollment count and the file uploads. This count would occur during the same time that districts are required to certify their previous year's dropout, graduation, and cohort counts. A 1.00 FTE data control specialist costs \$55,176 annually for salary and benefits in FY 2014 and FY 2015. The operating budget associated with this position is \$5,000 annually.
66. The OPI would need 1.50 FTE in the school finance division to implement the distribution of oil and natural gas production taxes to school districts under Section 8, amending 20-9-310, MCA. The staff would also be needed to rewrite business processes, instructions, and manuals and to train school districts. The 1.50 FTE financial specialists would cost \$81,415 annually for salaries and benefits in FY 2014 and FY 2015. The operating budget for these positions is \$7,500 annually.
67. OPI estimates that implementation of SB 175 would require computer programming to update computer systems at a general fund cost of \$12,000.
68. The OPI would need \$2.55 million annually to provide school districts with systems to make student-level performance data available to teachers in local school districts. This estimate assumes one statewide contract with a vendor to provide educators with tools to support Response to Intervention and data driven instruction. This estimate is based on \$17 per pupil and 150,000 students. The agency would also need 3.00 FTE computer system analysts, to develop a project plan, prepare an RFP solicitation package, manage the contract, and implement the project with school districts. These positions would cost \$224,750 annually in the 2015 biennium. The operating budget associated with these positions would be \$7,500 per person per year.
69. The personal services and operating expenses throughout this fiscal note are inflated at a rate of 1.5% per year in the 2017 biennium.

Department of Revenue (DOR)

70. Section 8 of SB 175 changes how oil and natural gas production taxes in excess of 130% of a school district's maximum general fund budget. Under current law, the excess revenue is distributed to the state special revenue Guarantee Account (70%), the State School Oil and Natural Gas Impact Account (5%), and to the County School Oil and Natural Gas Impact Fund (25%). SB 175 first diverts any excess to other school districts in the following order.
- To schools that are in the same unified school system as the district that would have initially received the oil and natural gas production taxes revenue, up to 130% of the receiving school district's maximum general fund budget.
 - To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.

- C) To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.
- D) To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years, up to 130% of the receiving school district's maximum general fund budget.
71. After the distributions are made in assumption 70, any remaining revenue is distributed by the OPI to the state special revenue Guarantee Account (70%), the State School Oil and Natural Gas Impact Account (5%), and to the County School Oil and Natural Gas Impact Fund (25%). For fiscal note purposes, it is assumed there would not be excess revenue to be distributed.
72. Under current law, the cap on the amount of oil and natural gas production taxes a school district may retain is set to terminate June 30, 2016. SB 175 extends these provisions to June 30, 2020. There is no impact of the changes of distribution in FY 2017 because it was not anticipated there would be revenue in that year.
73. The following table shows the estimated fiscal impact of Section 7, as amended, of SB 175, limiting school districts to retain 130% of the school district's maximum budget.

	FY 2014	FY 2015	FY 2016	FY 2017
Guarantee Account	(\$8,194,684)	(\$7,402,843)	(\$6,687,517)	\$0
State School O&G Impact Account	(\$585,335)	(\$528,775)	(\$477,680)	\$0
County School O&G Impact Fund	(\$2,926,673)	(\$2,643,873)	(\$2,388,399)	\$0
School Districts	\$11,706,692	\$10,575,490	\$9,553,595	\$0

74. It is assumed it would cost the DOR \$13,600 in FY 2014 to administer the needed changes to oil and natural gas production taxes distribution in accordance with the provision of SB 175.

Montana School for the Deaf and Blind, Department of Corrections, and Department of Military Affairs

75. SB 175 includes an inflationary increase to the quality educator payments defined in 20-9-327, MCA. That statute includes the Montana School for the Deaf and Blind (MSDB), state youth correctional facilities, and the Montana Youth Challenge program to receive quality educator payments. The following table shows the increase from the current law amount of \$3,042 per qualified FTE plus applicable retirement.

	FTE	FY 2014	FY 2015	FY 2016	FY 2017
Quality Educator Pmt/FTE		\$3,069	\$3,133	\$3,204	\$3,258
MSDB	25.4	\$789	\$2,658	\$4,732	\$6,309
Corrections	19.3	\$599	\$2,020	\$3,596	\$4,794
Youth Challenge	<u>5.0</u>	<u>\$155</u>	<u>\$523</u>	<u>\$932</u>	<u>\$1,242</u>
Total	49.7	\$4,612	\$8,334	\$12,463	\$15,603

Secretary of State

76. This bill will have minimal cost for postage and administrative duties related to tribal notifications in Section 33 of the bill. The Office of the Secretary of State does not receive general fund monies for office operations, but has agreed to assume the fiscal responsibility for this bill.

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
FTE	6.50	6.50	6.50	6.50
<u>Expenditures:</u>				
Personal Services	\$431,059	\$431,059	\$437,525	\$444,088
Personal Svcs (MSDB, Military Affiars, Corrections)	\$4,612	\$8,334	\$12,463	\$15,603
Operating Expenses (OPI)	\$55,000	\$43,000	\$43,645	\$44,300
Operating Expenses (DOR)	\$13,600	\$0	\$0	\$0
Operating Expenses (Computer system-OPI)	\$2,550,000	\$2,550,000	\$2,588,250	\$2,627,074
Local Assistance (DSA)	\$13,514,994	\$18,216,795	\$18,952,238	\$19,402,459
Local Assistance (GTB)	(\$19,599,894)	(\$18,591,458)	(\$18,417,437)	(\$17,260,035)
Local Assistance (Indian Ed for All)	\$72,727	\$139,333	\$212,333	\$268,476
Local Assistance (American Indian Achiev Gap)	\$37,694	\$112,638	\$205,700	\$279,420
Local Assistance (Quality Educator Pmt)	\$328,781	\$1,108,113	\$1,972,684	\$2,630,245
Local Assistance (AT Risk Pmt)	\$44,500	\$149,426	\$266,318	\$354,266
Local Assistance (Data-for-Achievement Pmt)	\$2,994,560	\$3,058,802	\$3,136,355	\$3,223,402
Local Assistance (County Retirement GTB)	\$373,111	\$524,632	\$541,199	\$557,365
Local Assistance (Natural Resources Pmt)	\$48,780,162	\$49,677,170	\$49,801,119	\$48,015,270
K-12 BASE Aid (General Fund)	\$9,594,684	\$8,802,843	\$8,087,517	\$0
K-12 BASE Aid (Guarantee Account-SA)	(\$9,594,684)	(\$8,802,843)	(\$8,087,517)	\$0
TOTAL Expenditures	<u>\$49,600,906</u>	<u>\$57,427,844</u>	<u>\$59,752,392</u>	<u>\$60,601,932</u>

Funding of Expenditures:

General Fund (01)	\$59,195,590	\$66,230,687	\$67,839,909	\$60,601,932
State Special Rev (02) Guarantee Acct-SA	(\$9,594,684)	(\$8,802,843)	(\$8,087,517)	\$0
State Special Rev (02) State O&G Impact	\$0	\$0	\$0	\$0
State Special Rev (02) County O&G Impact	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$49,600,906</u>	<u>\$57,427,844</u>	<u>\$59,752,392</u>	<u>\$60,601,932</u>

Revenues:

General Fund (01)	\$0	\$0	\$0	\$0
State Special Rev (02) Guarantee Acct-SA	(\$9,594,684)	(\$8,802,843)	(\$8,087,517)	\$0
State Special Rev (02) State O&G Impact	(\$685,335)	(\$628,775)	(\$577,680)	\$0
State Special Rev (02) County O&G Impact	(\$3,426,673)	(\$3,143,873)	(\$2,888,399)	\$0
TOTAL Revenues	<u>(\$13,706,692)</u>	<u>(\$12,575,491)</u>	<u>(\$11,553,596)</u>	<u>\$0</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$59,195,590)	(\$66,230,687)	(\$67,839,909)	(\$60,601,932)
State Special Rev (02) Guarantee Acct-SA	\$0	\$0	\$0	\$0
State Special Rev (02) State O&G Impact	(\$685,335)	(\$628,775)	(\$577,680)	\$0
State Special Rev (02) County O&G Impact	(\$3,426,673)	(\$3,143,873)	(\$2,888,399)	\$0

Effect on County or Other Local Revenues or Expenditures:

1. Local property taxes could decrease by approximately \$19.0 million per year as a result of SB 175.

Technical Notes:**Office of Public Instruction (OPI)**

1. Subsection 10 of Section 5 of SB 175, as amended, is not clear as to the meaning and determination “of a variable percentage of the basic and per-ANB entitlements” or the “above the direct state aid” statement.
2. Section 29, as amended, amending the state special revenue Guarantee Account, allows a school district to deposit a constitutionally-designated source of state support for schools into the miscellaneous program fund.
3. In 20-9-308(1)(b), MCA, the increase in state funding for the basic and per-ANB entitlements would be calculated as direct state aid (44.7% of the basic and per-ANB entitlements), not the GTB payments.
4. The proposed changed to 20-9-308(2)(a), MCA, would allow a school district to accumulate any unused voter-approved general fund levy authority from the previous five years.
5. Mixing of voted and permissive levies in section 20-9-308(2)(b), MCA, creates a loss of control in determining when a vote is required. OPI would not have the ability to determine if a district should have voted a levy to increase the Over-BASE until well after the deadline for an election has passed. Under this section, as amended, the district would have the ability to move levy authority among funds.
6. The language in 20-9-310(4)(a), MCA, “By the last day of the last month following the quarterly distribution...” needs to be clarified.
7. Section 20-9-310(4)(iv), MCA, does not specify that the horizontally completed well must cross county lines. The well could be contained entirely with the county, but the money would still be distributed to school districts that are located in a contiguous county, whether they are impacted or not.
8. Section 15, page 29, line 17 of the gray bill, “outstanding” should be inserted before “oil and natural gas revenue bonds to which a deficiency tax levy is pledged”.
9. Section 15, page 29, line 24 of the gray bill, “outstanding” should be inserted before “oil and natural gas revenue bonds to which a deficiency tax levy is pledged”.
10. Section 15, page 30, line 2 of the gray bill, “outstanding” should be inserted before “oil and natural gas revenue bonds to which a deficiency tax levy is pledged”.
11. Section 15, page 29, line 3 of the gray bill, “pursuant to 15-36-332 and” should be inserted after “district”.
12. Section 16, page 31, line 30, “15-36-332 and under the limitations of” should be inserted after “pursuant”.
13. Section 22, page 36, line 27 of the gray bill, insert “pursuant to 15-36-332 and” after “district”.
14. Section 25, page 40, line 5 of the gray bill, insert “15-36-332 and under the limitations of” after “pursuant to”.

Department of Revenue (DOR)

15. SB 175, Section 3(4)(e), amending 15-36-331, MCA, directs the distribution of funds remaining after other distribution of oil and natural gas production taxes would be distributed to the Guarantee Account and the state general fund not later than October 1 following the close of the fiscal year. However, 15-36-332(6)(b), MCA, indicates distribution of oil and natural gas production taxes by DOR shall remit to the county treasurer for the calendar quarter ending June 30 of the current year would take place on or before November 1 of each year. Changing the October 1 date in SB 175 would provide consistency in DOR distribution of the oil and natural gas production taxes.


Sponsor's Initials

2/5/13
Date


Budget Director's Initials

2/5/13
Date